



**OFFICE OF INSPECTOR GENERAL**

*Washington, D.C. 20554*

**March 31, 2014**

Show Low Unified School District  
Kevin Brackney, Superintendent  
381 W. Old Linden Road  
Show Low, Arizona 85901

Dear Mr. Brackney,

This letter transmits Moss Adams, LLP's performance audit of Show Low Unified School District (Show Low USD), Beneficiary number 143130. The audit included Fiscal Year 2009 disbursements for the Schools and Libraries Program. The audit was to determine (1) Show Low USD's compliance with the applicable FCC's 47 C.F.R. Part 54.500 to 54.523 rules and related orders, requirements and instructions to the Schools and Libraries Program and (2) to determine if the Schools and Libraries Program can be made more effective and efficient.

The audit concluded that the District was not fully in compliance with FCC rules, orders and administrative requirements. The audit noted four findings that were related to record retention, discount rate calculation and reimbursement matters. The attached report incorporates your responses.

In connection with this contract, we reviewed Moss Adams report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards (GAGAS), was not intended to enable us to express, and we do not express, conclusions on Moss Adams' review of compliance or whether you substantially complied with FCC's laws and regulations. Moss Adams is wholly responsible for the audit, the attached report dated March 31, 2014, and the conclusions expressed in the report. However, our review disclosed no instances where Moss Adams did not comply, in all material respects, with GAGAS.

We thank your staff for the assistance that was extended to our auditors during this audit. If you have any questions, please contact Gerald Grahe at (202) 418-7899 or Beth Engelmann at (202) 418-1448.

A handwritten signature in black ink, appearing to read "Gerald Grahe", written over a horizontal line.

Gerald Grahe  
Assistant Inspector General for Audit

Attachment: Moss Adams Final Audit Report dated March 31, 2014

cc Moss Adams, LLP

MOSS ADAMS<sup>LLP</sup>

Performance Audit

Show Low Unified  
School District

Funding Year 2009

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## EXECUTIVE SUMMARY: PERFORMANCE AUDIT OF SHOW LOW UNIFIED SCHOOL DISTRICT, SHOW LOW, ARIZONA

### A. WHY WE DID THIS AUDIT

Beneficiary compliance audits are part of the Office of Inspector General's (OIG's) Universal Service Fund (USF) Oversight Team efforts to ensure beneficiary compliance with USF Schools and Libraries Program requirements under 47 C.F.R. Section 54 of the Federal Communications Commission's (FCC) rules.

### B. WHAT WE FOUND

Our audit disclosed that Show Low Unified School District (District or Beneficiary) did not comply with the FCC rules related to (1) record retention, (2) discount rate calculations, and (3) reimbursement matters relative to disbursements made from the USF during funding year (FY) 2009. We found the District did not maintain all records nor did their policy for record retention meet the FCC rules. We also noted the District used incorrect data when completing their discount rate calculation. We found the service provider had over charged USF due to a revised invoice and the District did not perform a cost allocation for equipment, which had certain eligible and ineligible portions/functions.

### C. WHAT WE RECOMMENDED

We have recommended recovery of FY 2009 disbursements totaling \$30,802 from the Beneficiary and \$1,000 from the Service Provider. We also recommend the District implement policies and procedures, which are in-line with FCC rules and regulations; implement review processes for data that is submitted to the FCC; implement a quarterly reconciliation of invoices to the Quarterly Disbursements Report; and implement procedures to evaluate equipment for ineligible functions/uses.

### D. BENEFICIARY COMMENTS AND OUR RESPONSE

The District provided written responses to our findings in which they agreed with the audit findings; however, they do not agree that monies should be recovered.

*Moss Adams LLP*

Spokane, Washington  
 March 31, 2014

## I. OBJECTIVES, SCOPE, AND METHODOLOGY

### A. BACKGROUND

The USF Schools and Libraries Program, often called "E-Rate," provides discounts to help schools and libraries in every U.S. state and territory secure affordable telecommunications, Internet access, basic maintenance, and internal connections.

The Beneficiary, Beneficiary Number 143130, is a rural public school district located in northeastern Arizona. The Beneficiary has 7 schools and approximately 2,600 students. The performance audit encompassed the Beneficiary's funding year 2009 disbursements of \$674,958 that provided internal connections through 13 Funding Request Numbers (FRNs).

### B. PERFORMANCE AUDIT OBJECTIVES AND SCOPE

The FCC OIG contracted with Moss Adams LLP to perform a performance audit of Show Low Unified School District's, Beneficiary Number 143130, expenditures related to FY 2009 disbursements of \$674,959 of the USF E-Rate program.

The total disbursements were \$674,959 and were all related to FCC Form 471 Number 681484 (see Appendix I).

During the performance audit, we focused on the following two objectives:

1. To determine if the USF beneficiary complied with all applicable FCC's 47 C.F.R. Part 54.500 to 54.523 rules and related orders, regulations, requirements and instructions (related orders can be found on the Administrator's website at <http://www.usac.org/about/tools/fcc/>); and
2. To determine if USF programs can be made more effective and efficient.

We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the performance audit to obtain sufficient, appropriate evidence to provide a reasonable basis of our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our examination does not provide a legal determination of the Beneficiary's compliance with specified requirements.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

### C. PERFORMANCE AUDIT METHODOLOGY

In performing the objectives, we selected a sample of the above FRNs (representing 84% of the total disbursements) and tested compliance with the applicable FCC's 47 C.F.R Part 54.500 to 54.523 rules and related orders, regulations, requirements, and instructions. We performed testing over record keeping, the application process, service provider selection, receipt of services, and reimbursement matters. The testing was performed by requesting supporting documentation from the Beneficiary such as their approved technology plan, invoices related to the FRNs selected for testing, policies and procedures applicable to the program, National School Lunch Program (NSLP) data, related Form 471s and 486s, compliance with the Children's Internet Protection Act, procurement, and equipment listings. In addition, we interviewed several individuals at the Beneficiary who are involved with the E-Rate program.

## II. COMPLIANCE FINDINGS AND RECOMMENDATIONS

**Note-** All references to the C.F.R.s throughout this report are references to the CFRs that were applicable during funding year 2009.

### **Finding # 1 - Record Retention**

**Condition:** The Beneficiary's policy does not meet FCC's record retention requirements for all types of records, which ensures compliance with FCC's 47 C.F.R. Part 54.516(a)(1). This finding applies to all FRNs. The cash receipt records, discount percentage support records, and fixed asset listings under the District's policy are only required to be retained for a maximum of three years, but the USAC minimum is five years. In addition, the District could not locate copies of their October 2008 NSLP data, which was used in their application process; however, they did have November 2008. The Beneficiary also did not maintain the underlying data that agreed to NSLP student counts (October 2008) used on Form 471, P2\_SL09-10, for Show Low High School and White Mountain Institute for the month requested; however, the Beneficiary provided the underlying data for Show Low High School and White Mountain Institute for the next month (November 2008).

**Criteria:** Per FCC's 47 C.F.R. Part 54.516(a)(1) schools and libraries shall retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for at least five years after the last day of service delivered in a particular funding year.

**Cause:** The Beneficiary follows Arizona state record retention policies, which govern the storage and retention of sensitive documents. Receipt records, discount percentage support records, and fixed asset listing records are also only required to be retained for a maximum of three years, as opposed to the five years required by the FCC.

**Effect:**

The Beneficiary was not in compliance with the program requirements and the record retention policy is not clear to all employees. Based on our procedures performed there was no monetary effect as the discount rate appears proper for those schools based upon the November 2008 data (which is only a month later and so we would expect it to be comparable to October 2008). All other documents were maintained (even though they were not covered under their policy).

**Recommendation:**

Moss Adams recommends the Beneficiary implement policies and procedures related to record retention that are consistent with FCC's 47 C.F.R. Part 54.516(a)(1).

**Management Response:**

The District understands the finding as presented and agrees to comply with the recommendation as presented. The District does not contest this finding, but reserves the right to modify this management response in the event the opinion and/or recommendation is modified.

**Finding # 2 - Discount Rate Support**

**Condition:**

The Beneficiary included duplicate data for two schools in their discount rate calculation in Block 4 of FCC Form 471, P2\_SL09-10. When completing Form 471 for Clay Springs Elementary School the data for Show Low Primary School was used instead. Also, when completing Form 471 for Linden Elementary School, the data for White Mountain Institute was incorrectly used. We also noted one school was incorrectly classified as urban.

**Criteria:** Per FCC's 47 C.F.R. Part 54.505 (b), the Beneficiary should measure the level of poverty by the percentage of student enrollment that is eligible for a free or reduced price lunch. The Beneficiary will also be classified as urban or rural, based on the location in an urban or rural area, as measured by the Office of Management and Budget's Metropolitan Statistical Area method.

**Cause:** The Beneficiary included incorrect data for Clay Springs Elementary School and Linden Elementary School (incorrect school data was used) on Form 471. The classification of Clay Springs Elementary School was also misclassified as urban, when it should be rural.

**Effect:** Based on our procedures, the discount rates for Clay Springs Elementary School and Linden Elementary School were correct, but the shared discount rate was incorrectly listed on Form 471 as 77%, and it should be 76%, due to the weighted average calculation. We calculated the total monetary effect of this finding to be \$409 related to FRN 1862533.

**Recommendation:** Moss Adams recommends the Beneficiary implement a review process for data before it is submitted to the FCC, to ensure the correct information is being submitted for each school. We also recommend that USAC take action to recover \$409.

**Management Response:**

The District understands the finding as presented and agrees to comply with the recommendation as presented. The District does not contest this finding, but reserves the right to appeal the implementation of the recommendation in the event the opinion and/or recommendation is modified.

### **Finding # 3 – Service Provider Over-billing**

- Condition:** The Service Provider submitted FCC Form 474, invoice number 1474589, for charges billed to the Beneficiary on invoice 1077223. The invoice to the Beneficiary was later revised by the Service Provider, due to an incorrect billing noticed by the Beneficiary, and the total invoice was decreased by \$1,250. The Service Provider did not subsequently adjust FCC Form 474 and return the overpaid funds for the discounted portion to USAC.
- Criteria:** FCC's 47 C.F.R. Part 54.505(a) requires discounts to be set as a percentage discount from the pre-discount price. The Service Provider should have filed an FCC Form 474, Service Provider Invoice (SPI) for eligible services provided to the Beneficiary at discounted prices. A reconciliation between the invoices received and the Quarterly Disbursements Report ensures proper amounts are submitted and is therefore considered a best practice.
- Cause:** This condition was caused by the Service Provider lacking controls related to the USAC billing processes as well as a lack of reconciliations performed by the Beneficiary between the amounts disbursed to the Service Provider and the invoiced amounts.
- Effect:** Based on our procedures performed, the Service Provider overbilled USAC for \$1,000 (\$1,250 times 80% discount rate).
- Recommendation:** Moss Adams recommends a quarterly reconciliation be performed between invoices received and paid by the Beneficiary and the Quarterly Disbursements Report provided by the Schools and Libraries Division of USAC. This would identify any potential over or under payments by the Service Provider that can then be communicated to USAC. We also recommend that USAC seek recovery of the \$1,000 from the Service Provider.

**Management Response:**

The District understands the finding as presented and agrees with the recommendation as presented. The District does not contest this finding, but reserves the right to modify this management response in the event the opinion and/or recommendation is modified.

**Finding #4 – Cost Allocation**

**Condition:** The Beneficiary did not perform a cost allocation (eligible portion versus ineligible portion) for equipment related to FRNs 1862533 and 1862626 for the portion of the internal connections that was to be used for other than internal connections, i.e., file storage.

**Criteria:** FCC's 47 C.F.R. Part 54.504(g) stipulates that "a product or service that includes both eligible and ineligible components must allocate the cost of the contract to eligible and ineligible components." FCC's 47 C.F.R. Part 54.504(g)(1) states that "costs must be allocated to the extent that a clear delineation can be made between the eligible and ineligible components." USAC's current website also states that "Several methods of cost allocation can be used," and that "file servers and other components that have multiple purposes, some eligible and some ineligible, can be cost allocated by using a simple average of the different functions for a product." In addition, the Schools and Libraries Eligible Services List for FY 2009 also includes a list of products and services which have eligible and ineligible components.

**Cause:** The District was not aware that a cost allocation between eligible and ineligible purposes of products purchased was required.

**Effect:** Using the cost allocation of a simple average of the different functions for a product as allowed by USAC, ineligible amounts reimbursed to the District by USAC totaled \$ [REDACTED] for three assets purchased under FRN 1862533 and \$ [REDACTED] for two assets purchased FRN 1862626. The total overpayment was \$30,393 (see Appendix II).

**Recommendation:** Moss Adams recommends the District implement procedures to determine whether any proposed equipment purchases have intended functions which are ineligible in order to ensure that the District remains in compliance with FCC's 47 C.F.R. Part 54.504 and USAC guidelines. We also recommend that USAC consider seeking recovery of the \$30,393 from the Beneficiary for the non-eligible functions.

**Management Response:**

The District understands the finding as presented and agrees to comply with the recommendation to implement procedures to determine whether any proposed equipment purchases have intended functions, which are ineligible in order to ensure compliance with USAC guidelines. The District contends the Service Provider should have taken the lead to identify any ineligible costs, as District personnel are not familiar with the cost allocation of particular items of equipment, and rely on Service Providers to provide that information. In this case the Service Provider failed to do so. The District does not agree with the recommendation seeking recovery of \$30,393 and reserves the right to appeal implementation of that part of the recommendation.

### III. EFFECTIVENESS AND EFFICIENCY RECOMMENDATIONS

There were no significant recommendations related to the effectiveness and efficiency of the program.

APPENDIX I – TOTAL DISBURSEMENTS UNDER AUDIT

FRN	Amount Disbursed
1862533	\$ 40,938.17
1862579	59,808.02
1862586	170,382.39
1862604	28,737.34
1862608	14,378.48
1862613	58,636.34
1862616	134,636.15
1862620	29,937.34
1862626	14,378.48
1862702	27,813.37
1862709	62,118.12
1862714	18,815.86
1862721	14,378.48
<b>Total</b>	<b>\$674,958.54</b>

## APPENDIX II -DETAIL RELATED TO OVERPAYMENT

Tag Number	Serial Number	Description	FRN	Cost	Eligibility	Eligible Cost	Ineligible Cost	Disc. %	Amt USAC should have paid	USAC paid	Amount Overpaid by USAC	Eligible Uses	Ineligible Uses
[REDACTED]													
											Total amount \$	\$ 30,393	