

Performance Audit

Amarillo Independent  
School District

Funding Year 2010

OIG Report No. 15-AUD-04-03

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## EXECUTIVE SUMMARY

Performance audit of Amarillo Independent School District, Amarillo, Texas

### 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 (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 Amarillo Independent School District (District or Beneficiary) generally complied with the FCC rules related to reimbursement matters relative to disbursements made from the Program during funding year (FY) 2010. We found the service provider had overcharged the Program due to an ineligible item included in the District's application that was removed during a Program Integrity Assurance (PIA) review. The District included ineligible services on their FCC Form 471 and did not perform a reconciliation of service provider invoices. It is the District's responsibility to ensure only eligible services are applied for. In addition, had a reconciliation been performed, it would have served to identify the incorrect submission for reimbursement. In addition, the District did not maintain records of equipment transfers, which took place after three years from the initial purchase.

### C. WHAT WE RECOMMENDED

We have recommended recovery of FY 2010 disbursements totaling \$68,322 from the Service Provider. We also recommend the District implement a control to ensure all ineligible services are excluded from their application and perform a reconciliation of its service provider bills to the Quarterly Disbursements Report. The reconciliation to the Quarterly Disbursements Report would also help to ensure that the amounts are correct and do not include ineligible items after payment is made. In addition, we have recommended the District implement a policy to track and document transfers of equipment.

### D. BENEFICIARY COMMENTS AND OUR RESPONSE

The District provided written responses to our findings in which they agreed with the audit findings.

*Moss Adams LLP*

Spokane, Washington  
October 5, 2015

# 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 Telecommunication, Internet access, basic maintenance, and internal connections.

The Beneficiary, Beneficiary Number 141890, is an urban public school district located in northern Texas. The Beneficiary had 53 schools and approximately 32,000 students during the 2010 funding year. The performance audit encompassed the Beneficiary's funding year 2010 disbursements of \$6,182,806 that provided internal connections, Internet access and telecommunications services through 16 Funding Request Numbers (FRNs).

## B. PERFORMANCE AUDIT OBJECTIVES AND SCOPE

The FCC OIG contracted with Moss Adams LLP to perform a performance audit of Amarillo Independent School District's, Beneficiary Number 141890, expenditures related to FY 2010 disbursements of the USF E-Rate program.

The total disbursements were \$6,182,806 and were related to Funding Request Numbers noted in Appendix I.

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

1. To determine if the USF beneficiary complied with 47 C.F.R. Section 54.500 to 54.523, Section 254 of the Communications Act of 1934, as amended, and all applicable orders issued under Section 254 (related orders can be found on the Administrator's website at <http://www.usac.org/about/tools/fcc/>): and
2. To determine if the beneficiary has adequate and effective controls to ensure USF funds are safeguarded and used for the purposes intended.

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 samples related to the above FRNs based upon our firm attribute sampling methodology. We tested compliance with the applicable rules in 47 C.F.R. Section 54.500 to 54.523, which deals with Universal Service support for Schools and Libraries (E-Rate). E-Rate was established under Section 254 of the Communications Act of 1934, as amended, and all applicable orders issued. 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, a sample of invoices related to the FRNs, 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 CFRs throughout this report are references to the CFRs that were applicable during funding year 2010.

### **Finding #1**

#### **Condition**

The USF Schools and Libraries Program paid for an ineligible item that was originally included on the application, FCC Form 471 #768850. The District did not ensure ineligible items were excluded from the FCC Form 471, nor did they perform a reconciliation of service provider invoices to the Quarterly Disbursements Report provided by the Schools and Libraries Division (SLD) that details the payments to service providers. USAC's review did note that the item was ineligible during PIA review. The service provider invoiced and received reimbursement from USAC for an ineligible item related to funding year 2010. This related to an invoice selected for FRN 2078770 (Form 474 #1432342 and service provider invoice # VLS8031). The ineligible item was a [REDACTED]

#### **Criteria**

Eligible services are described in 47 CFR 54.522 as being services that are updated annually. Services submitted on Form 471s should be compared to the annual listing and only eligible items should be included for discounted services (CFR 54.504(c)). In addition, best practices observed at beneficiaries of E-Rate funds include preparing and retaining a schedule of service provider bills, which is reconciled to the Quarterly Disbursements report, as well as having controls in place to review the service provider invoice before payment is made.

#### **Cause**

The District did not check the eligible services listing close enough and was not reconciling service provider invoices to quarterly reports and was unaware that the service provider had submitted ineligible items, already paid for by the District, for reimbursement.

### **Effect**

It appears the service provider billed the District for the full amount of the ineligible item and invoiced USAC for the discounted amount of \$68,322 (\$75,914 x 90%).

### **Recommendation**

Moss Adams recommends the District design and implement a control to ensure only eligible services are submitted on their Form 471, as well as a control to formally reconcile its service provider bills to the Quarterly Disbursements report. In addition, documentation supporting such reconciliations should be retained. The reconciliations would help to ensure services are consistent with work actually performed and discounts provided on bills received. We also recommend USAC seek recovery of \$68,322 disbursed from the USF for the ineligible item.

### **Beneficiary Response**

When building associated Bill of Materials, AISD identified the WCS software as ineligible. AISD failed to follow through with omitting this from the original Form 471 filing but was identified during PIA review with Marilyn Brown on June 23, 2010. Form 471 amounts were adjusted at this time to exclude the software, network management cards (which were in question during the audit), and 8 Cisco 1142 Access Point wireless radios, which were determined to be spare.

Reviews with vendors and eligible items are in place to ensure program compliance in future requests. Also, review of Quarterly Disbursements will be validated against filed 471 amounts.

AISD agrees with recommendation to seek recovery of amounts associated with WCS software since AISD paid 100% of item cost and vendor billed USAC for prorated amount.

### **USAC Management Response**

Beneficiaries are required to request funding only for eligible services.<sup>1</sup> Section 54.522 provides that USAC will provide a list of all services that are eligible for E-rate program funding to the Commission for approval. The Commission releases a Public Notice attaching the final eligible services list for the upcoming funding year at least 60 days prior to the window opening.<sup>2</sup> Services submitted on the FCC Form 471 should be compared to the annual Eligible Service List (ESL) and only eligible items should be included for discounted

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<sup>1</sup> 47 C.F.R. § 54.504(c) (2010). *See also Instructions for Completing the Schools and Libraries Universal Service Services Ordered and Certification Form (FCC Form 471)*, OMB 3060-0806 (Oct. 2010), at 19 ("Ineligible Costs: You may not seek support for ineligible services, entities, and uses, nor should you inflate your funding request beyond what you are able to substantiate as your likely costs during the funding year. Block 5 will guide through deducting any ineligible costs from your total cost of services before calculating your discount request. If you have questions about whether a service is eligible for support, please check the "Eligible Services List" on USAC's web site or contact CSB.").

<sup>2</sup> 47 C.F.R. § 54.522 (2010).

services.<sup>3</sup> The FCC OIG auditors determined that the Beneficiary included an ineligible item on its FCC Form 471 funding application and did not have sufficient controls in place to verify that USAC was being invoiced only for eligible services and equipment. USAC provides Beneficiaries with Quarterly Disbursement reports so they can verify the services and equipment that their service providers are invoicing to the E-rate program. The FCC OIG auditors recommended that the Beneficiary implements controls to ensure it only requests funding for eligible services and equipment and that it reconciles its service provider bills to the Quarterly Disbursement reports to verify USAC is being invoiced only for eligible services and equipment.

The Beneficiary states in its response that it agrees with this finding and will establish a process to review its invoices with vendors and reconcile the invoices with USAC's Quarterly Disbursement reports for accuracy. The Beneficiary will also review its funding applications to verify funding is requested for only eligible services and equipment.

We noted the ineligible item was removed from the FCC Form 471 768550 during PIA review. In this instance, the service provider invoiced USAC for an ineligible item that was not approved. Going forward, the Beneficiary and the Service Provider should work together to ensure that the E-rate program is only invoiced for eligible equipment and services that is approved and committed in the Funding Decision Commitment Letter (FCDL) as required by the Program rules. Further guidance concerning the invoicing process and eligible services and equipment may be found on USAC's website. USAC management concurs with the finding, effect, and recommendation and will seek recovery of \$68,322.

## **Finding #2**

### **Condition**

The District transferred equipment items purchased at a discount from the USF Schools and Libraries Program to another school within the District and did not track when and where the transfer took place. Although the District informed us the transfer had taken place after the three-year "no transfer period," they did not retain documentation of the transfer. The items identified as being transferred without documentation during physical equipment observations were Smart uninterruptible power supplies (UPS) (Serial #AS1021340277) and a power injector related to FRN 2078770 (FCC Form 474# 1432354 and service provider invoice #VNT9824).

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<sup>3</sup> See *supra* n.1.



### **Criteria**

CFR 54.513(c) states: "Eligible services and equipment components of eligible services purchased at a discount under this subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event the particular location where the service originally was received is permanently or temporarily closed."

In addition, CFR 54.516 (a) states: "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. Schools and libraries shall maintain asset and inventory records of equipment purchased as components of supported internal connections services sufficient to verify the actual location of such equipment for a period of five years after purchase."

### **Cause**

Although the District maintained inventory records, they did not prepare and retain documentation related to transfers for the specified five-year period.

### **Effect**

Although the related equipment was found, it was not easily located and it is unclear if the transfer took place after the three-year period, as there was no documentation maintained related to the transfer.

### **Recommendation**

Moss Adams recommends the District implement policies and procedures to document transfers of discounted equipment purchased with program funds.

### **Beneficiary Response**

AISD hired a new Fixed Asset Manager and implemented new software systems and controls to ensure location of assets throughout the required program years including individualized asset transactions.

### **USAC Management Response**

Section 54.504(c)(1)(vii) states: "[e]ligible services the applicant purchases at discounts will be used solely for educational purposes and will not be sold, resold, or transferred in consideration for money or any other thing of value.<sup>4</sup> Section 54.513(c) provides "[e]ligible services and equipment components of eligible services purchased at a discount under this

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<sup>4</sup> 47 C.F.R. § 54.504(c) (1)(vii) (2010).

subpart shall not be transferred, with or without consideration of money or any other thing of value, for a period of three years after purchase, except that eligible services and equipment components of eligible services may be transferred to another eligible school or library in the event that the particular location where the service originally was received is permanently or temporarily closed.<sup>5</sup>

In addition, section 54.516(a) states: "[s]chools 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. Schools and libraries shall maintain asset and inventory records of equipment purchased as components of supported internal connections services sufficient to verify the actual location of such equipment for a period of five years after purchase."<sup>6</sup>

The Beneficiary informed the FCC OIG auditors that the equipment transfer occurred after the three-year period, but the Beneficiary did not retain documentation about the transfer of equipment to support this statement. The FCC OIG auditors recommended that the Beneficiary implement policies and procedures to document transfers of discounted equipment and retain the documentation in accordance with FCC rules.

The Beneficiary states in its response that it has hired a new Fixed Asset Manager and has implemented new software systems and controls to track the location of equipment purchased with E-rate funding. USAC agrees with the recommendations. Further, USAC recommends that the Beneficiary establish internal controls to ensure that all equipment purchased under the Schools and Libraries Program is properly tracked and reflected in an up-to-date inventory listing and recommends that the Beneficiary review USAC's website for further information on the FCC's document retention requirements and implement a process to retain documentation in accordance with FCC rules as well. USAC management concurs with the finding, effect, and recommendation.

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<sup>5</sup> 47 C.F.R. 54.513(c) (2010).

<sup>6</sup> 47 C.F.R. 54.516(a)(1) (2010).

### III. ADEQUATE AND EFFECTIVE CONTROL RECOMMENDATIONS

See internal control recommendations related to compliance finding above.

## APPENDIX I-TOTAL DISBURSEMENTS UNDER AUDIT

FUNDING YEAR	FRN	AMOUNT DISBURSED
2010	1939676	\$6,182,806
	2078770	
	1939984	
	1939735	
	1939745	
	1939749	
	1939740	
	1939742	
	1983621	
	2056324	
	2064456	
	2064630	
	2048285	
	2049495	
	2048524	
1939684		

## APPENDIX II -DETAIL RELATED TO OVERPAYMENT

FRN	Date	Submitted in Form 474				Actual			Variance	USAC Portion	
		Total Inv.	USAC pay	AI SD pay	Inv. #	Invoice Amt.	Pd by AI SD	AI SD Ck #			
2078770	12/30/2010	\$603,813.17	90%	\$543,431.85	\$60,381.32	VLS8031A	\$527,899.34	\$52,789.93	407093	\$75,914	\$68,322