OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20554

June 7, 2013

Perry Street Preparatory Public Charter School
Shadwick Jenkins, Head of School
Garret Mushaw, Chief Operating Officer
1800 Perry Street, N.E.
Washington, D.C. 20018

RE: Beneficiary Number 220342

Dear Mr. Jenkins and Mr. Mushaw:

The Federal Communications Commission (FCC) Office of Inspector General (OIG) inspected Perry Street Preparatory Public Charter School's compliance with the FCC's rules and orders governing the Schools and Libraries Universal Service Support Mechanism. We reviewed selected disbursements of $421,125 made from the Universal Service Fund during the funding year ended June 30, 2010. The FY 2009 disbursements selected included Internal Connections Funding Request Numbers 1869690, 1869717 and 1869537.

Attached is the final report of the inspection conducted by our office; also attached is our management comment for your information only. The report incorporates your written response to the draft report and the response received from Universal Service Administrative Company.

The OIG performed this inspection consistent with its authority under the Inspector General Act of 1978, as amended (IG Act), including, but not limited to section 2(1) and 4(a)(1). It is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

In accordance with the IG Act, our office will post the inspection report to its website. OIG may redact sections of a report that is being released to the public. Redacting information that is proprietary or for which there is a legal requirement not to release enables OIG to publically release audit and inspection reports without compromising nonpublic information. Examples of information that should be redacted from a report include:

- Wholesale charges utilized by a commercial entity for specific services;
- Nonpublic account balances, such as revenue or overhead accounts, in the books of account for an entity other than FCC (such as a Universal Service Fund recipient or contributor). Note this does not include balances that have already been released to the general public, such as amounts from a financial statement or a public corporate filing;
- Internal control weaknesses that relate to security issues;
- All name references that directly identify individual persons, or any information covered by the Privacy Act of 1974, shall be omitted from the findings of reports. Appropriate position titles may be used.

USAC will contact you concerning actions required for implementation of recommendations. If you have questions, or need additional information, please contact Beth Engelmann, Audit Director, USF Program at 202-418-1448 or Beth.Engelmann@fcc.gov, or Gerald Grahe, Assistant Inspector General for Audits at 202-418-0474 or Gerald.Grahe@fcc.gov.

Sincerely,

David L. Hunt
Inspector General

Attachments: Final Audit Report 12-INSP-09-04
Management Comment

COMPLIANCE ASSESSMENT PROGRAM REPORT

COMPLIANCE INSPECTION OF PERRY STREET PREPARATORY PUBLIC CHARTER SCHOOL, WASHINGTON, DC

BENEFICIARY NUMBER 220342

Report No. 12-INSP-09-04

June 7, 2013

Federal Communications Commission Office of Inspector General

Executive Summary: Inspection of Perry Street Preparatory Public Charter School

Why an Inspection

Beneficiary inspections 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's) rules. The OIG performed this inspection consistent with its authority under the Inspector General Act of 1978, as amended, including, but not limited to section 2(1) and 4(a)(1). It is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

What We Found

Our inspection disclosed that Perry Street Preparatory Public Charter School (School or Perry Street PPCS) did not comply with the FCC rules that relate to (1) record retention and (2) maintenance of assets and inventory records relative to disbursements made from the USF during funding year (FY) 2009. The School could not provide adequate documentation of the FY 2009 application, but we were able to obtain records from Universal Service Administrative Company (USAC) to test compliance. We found that the School's asset and inventory records were inadequate to locate USF equipment and verify when equipment was delivered and installed.

What We Recommend

We recommend recovery of $1,255 under Funding Request Numbers (FRN) 1869537and 1869717 for missing equipment and unapproved substitutions under FRN 1869690 of an undetermined amount. We also recommend that Perry Street PPCS 1) revise its policy and procedures to meet E-Rate requirements to retain documentation to support the application, receipt and delivery of equipment and services for five years; 2) retain all documentation to support: the application including support for the discount calculation; the competitive bidding and service provider selection process; asset and inventory records of equipment purchased with USF and 3) request approval from USAC for all substitutions.

Beneficiary Comments and Our Response

Perry Street PPCS's response concurs with all of our findings. Additionally, the School has stated that it will: 1) set up a record retention file; 2) develop policy and procedures to comply with E-Rate record retention policy and 3) return funds for missing equipment and any substitution amounts to be determined. See Appendix III for the School's response and corrective action plan. Perry Street PPCS's agreement and corrective action plan is adequate for each of the findings and recommendations. USAC Management agreed with our findings and recommendations.

GERALD T. GRAHE, SR.
Assistant Inspector General
For Audit

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Inspection Objective and Scope

The objective of the inspection was to assess the Perry Street PPCS compliance with selected applicable requirements of 47 C.F.R Section 54 of the FCC's rules and related orders for the FRNs and disbursements made from the USF relative to FY 2009 the application number 683785 in Table 1 below:

Table 1
Perry Street PPCS E-Rate Disbursements Funding Year 2009

FRN Number	Category of Service	Disbursements	Total Disbursements
1869537	Internal Connections	$ 43,244	
1869690	Internal Connections	$ 237,357	
1869717	Internal Connections	$ 140,524	
			$ 421,125

This FCC OIG inspection is part of the Compliance Assessment Program (CAP) with the objective to evaluate compliance with selected FCC rules related to the Schools and Libraries Program. We conducted this inspection in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of the Inspectors General on Integrity and Efficiency. This inspection was performed by the OIG consistent with its authority, for example, under sections 2(1) and 4(a)(1) of the Inspector General Act of 1978, as amended. It is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit.

This inspection included tests of internal controls necessary to satisfy the inspection objective. Because our review of internal controls was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our inspection.

Background

USF Schools and Libraries Program

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. Over 31,000 eligible applicants received over $2.2 billion in Schools and Libraries Program support during 2011, bringing telecommunications and Internet services to millions of students and library patrons.

Perry Street Preparatory PPCS (beneficiary number 220342), formerly Hyde Leadership Public Charter School of Washington D.C., is a tuition free public charter school serving approximately 900 students in pre-kindergarten through twelfth grade. The School was granted a charter in 1999 by the D.C. Public Charter School Board (Board) as Hyde Leadership Public Charter School of Washington D.C., Inc. In 2011, the Board ended the School's affiliation with Hyde Leadership Schools and changed its name to Perry Street PPCS. The Perry Street PPCS Board

of Trustees governs the School. The School received FY 2009 E-Rate funds at an urban discount rate of 90%.

Findings and Recommendations

Finding 1: Lack of Documentation

Condition: Perry Street PPCS did not retain documentation to support its application for, receipt of, and delivery of discounted telecommunications and other supported services under FY 2009 FCC Form 471 application number 683785 funded under FRNs 1869537, 1869690, and 1869717 as follows:

1. documentation to support the application, including support for Block 4, used to calculate the discount percentage;
2. documentation of the competitive bidding process including: bids, contract, bid evaluation and service provider selection process;
3. asset and inventory records of E-Rate internal connections equipment purchased sufficient to verify location of the equipment;
4. service and equipment substitution requests and approval letters and
5. documentation to verify receipt and installation of E-Rate funded equipment and cabling.

Perry Street PPCS did not retain documentation to support the enrollment numbers in the February 2, 2009 FCC Form 471 application number 683785, so we could not verify the discount percentage. However, we were able to use the June 2009 enrollment numbers (dated after the application) to recalculate and determine if the discount percentage claimed on the application was consistent. We found that our recalculated discount percentage was consistent with the discount percentage on the FCC 471 application number 683785, Block 4.

Although Perry Street PPCS did not retain any documentation related to the competitive bidding process, we were able to obtain documentation from USAC based on a service review conducted in 2010. Documents included bids, request for proposal, bid evaluation, and a contract.

Perry Street PPCS did maintain a fixed asset list, however, it did not sufficiently identify E-Rate equipment and only included the name of the projects purchased (i.e. "On E-Rate contract for Safari Video Distribution System") under FRNs 1869537, 1869690, and 1869717. We developed an asset list based on service provider invoices, but could not locate all equipment purchased.[1]

The School's policy and procedures did not meet E-Rate requirements to retain documentation to support the tracking and location of equipment and retain documentation 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 the particular funding year. The School's *Financial Policy and Procedures* revised May 2008:

[1] See Finding 2, "Equipment Discrepancies."

1) required documentation related to physical inventory tags to be kept for only 3 years; receiving sheets for only 1 year, and correspondence for only 2 years unless it is a legal or an "important matter."
2) required recording of assets over $1000, and that the assets be expensed in the year purchased.

Perry Street PPCS was not aware of any substitutions and did not retain documentation, but USAC was able to provide copies of requests and approval letters for some service substitutions.

During fieldwork, we requested documentation from Perry Street PPCS to verify receipt and installation of equipment and cabling. Subsequently, we requested supporting documentation from the service provider. Neither Perry Street PPCS nor the service provider could provide records to support the FCC Form 486, receipt of services, such as: wiring floor plans showing the location of drops; test reports detailing the length of cabling or packing slips showing the delivery and installation dates. The service provider stated that they did test the functionality of the cabling as specified in the invoices paid, but did not prepare test reports. After our fieldwork was completed, the school provided architectural drawings for the school renovation. We were able to sample drops in several rooms and did not find significant differences in the number of drops purchased; some of the drops installed were damaged and not in use. While internal controls were not adequate to verify that services were received and installed by the date of the USF payment for services, our testing did allow us to support that the drops were received and installed.

Criteria: According to the 2009 Edition of 47 C.F.R. § 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 5 years after the last day of service delivered in a particular Funding Year. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. 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.

According to the 2009 Edition of 47 C.F.R. § 54.516(a)(2):

> Service providers shall retain documents related to the delivery of discounted telecommunications and other supported services for at least 5 years after the last day of the delivery of discounted services. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well.

According to the FCC 04-190, Fifth Report and Order, effective date October 13, 2004, paragraph 48, documents that service providers and beneficiaries must retain include the following, but are not limited to:

- Documents relative to the bidding process,
- Contracts, signed and dated by both parties,
- Documents used to complete the FCC Form 471 (including documents supporting the discount percentage),
- Asset and inventory records of equipment purchased sufficient to verify the location of such equipment.

Cause: Perry Street PPCS did not maintain sufficient E-Rate records related to their FY 2009 application for, receipt and delivery of E-Rate support services. Perry Street PPCS Chief Operating Officer (COO) stated that records were lost [redacted] Also, the School's policy did not meet E-Rate requirements for record retention and asset management records.

Effect: Due to the lack of documentation, we could not verify:

- the location of all the equipment;
- when equipment was delivered and installed;
- that all substitutions of equipment were appropriate, and
- the discount percentage.

There is no monetary effect for this finding because 1) we were able to obtain documentation for the competitive bidding process; and 2) we used an alternative method to test the discount percentage and number of cabling drops. Finding 2 addresses equipment discrepancies and corresponding effect.

Recommendations:

(1) We recommend Perry Street PPCS revise its policy and procedures to meet E-Rate requirements to retain documentation to support the application, receipt and delivery of equipment and services for five years.

(2) We recommend Perry Street PPCS retain all documentation to support the application including support for the discount calculation; competitive bidding and service provider selection process; asset and inventory records of equipment purchased with USF including equipment substitutions and receipt and installation of equipment.

Beneficiary's Response: The school agrees with our finding. See Appendix III for the School's corrective action plan.

FCC OIG Response to Beneficiary's Response: The School concurs with our finding and its corrective action is adequate to satisfy our recommendations.

USAC Management Response: Perry Street PPCS could not provide records to support the services requested on the FCC Form 471 #683785. Although Perry Street PPCS did not retain documentation, the auditors were able to obtain documentation from USAC based on a service review conducted in 2010. Documents included bids, request for proposal, bid evaluation, etc.

Program rules require applicants to retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported service for at least 5 years after the last day of service delivered in a particular Funding Year.

There is no monetary effect because the auditors were able to obtain the documentation and they used an alternative method to test the discount percentage and number of cabling drops. Going forward, the applicant has indicated procedures for document retention will be established. USAC management concurs with the finding, effect, and recommendation.

FCC OIG Response to USAC Management Response: USAC Management concurs with our findings and recommendations.

Finding 2: Failure to Properly Track Assets

Condition: Our physical inventory of the Perry Street PPCS's 150 pieces of E-Rate equipment funded by USF for funding year (FY) 2009 disclosed five pieces of equipment missing totaling $6,119. We later found that two of the five pieces totaling $4,724 were substituted without approval.

Perry Street PPCS did not maintain a complete and accurate inventory listing as required by FCC rules. The School's Fixed Asset List ("FAL") did not include a list of E-Rate equipment, but listed only an E-Rate project name. The School's policy did not require that all E-Rate equipment be recorded and documentation be retained for five years.[2]

The service provider stated that two of the five pieces of equipment were substituted. We found that the service provider did invoice APC Smart Uninterrupted Power Supply (UPS) equipment, but we did not find the APC equipment. IBM UPS equipment was substituted for the APC UPS and we did locate the two pieces of IBM equipment at the School. The substitution had not been approved by USAC, see Table 2.

Table 2. Unapproved Substitutions (FRN 1869690)

Equipment Description Per Invoice	Quantity of Invoiced Equipment	Quantity of Missing Equipment	Pre-discounted Cost of Equipment	Substitutions	Qty.	Substitution Cost
APC Smart UPS RT 4 Ethernet	1	1	$3,700	IBM UPS 7500/10000	1	Unknown
APC Smart UPS RT 192V battery pack	2	1	$1,024	IBM UPS EBM	1	Unknown
TOTAL unapproved substitutions		2	$4,724			

The other three pieces of equipment missing are detailed in Table 3:

[2] See finding number 1. Lack of Documentation

Table 3. Missing Equipment				
Equipment Description Per Invoice	**FRN**	**Invoiced**	**Missing**	**Pre-discounted Cost of Equipment**
Holland analog agile demodulator	1869537	2	2	$ 900
UPS 750 va rack mountable	1869717	3	1	$ 495
TOTAL MISSING			**3**	**$ 1,395**

Although the service provider informed us that the missing Holland analog agile demodulators were substituted with the iTach Controller, both pieces of equipment were itemized on the invoices and paid by USF. The discounted amount related to the missing equipment, which also represents the distribution of USF, is 90% of $1,395 or $1,255.

Criteria: According to the 2009 Edition of 47 C.F.R. § 54.516(a)(1):

> The Beneficiary should maintain, to date, 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.

According to the 2009 Edition of 47 C.F.R. 54.504(f)(1)-(2):

> The Administrator shall grant a request by an applicant to substitute a service or product for one identified on its FCC Form 471 where: (i) the service or product has the same functionality; (ii)[t]he substitution does not violate any contract provisions or state or local procurement laws; (iii) [t]he substitution does not result in an increase in the percentage of ineligible services or functions; and (iv) [t]he applicant certifies that the requested change is within the scope of the controlling FCC Form 470, including any associated Request for Proposal, for the original services. In the event that a service substitution results in a change in the pre-discount price for the supported service, support shall be based on the lower of either the pre-discount price of the service for which support was originally requested or the pre-discount price of the new, substituted service.

Cause: Perry Street PPCS's asset and inventory records did not list E-Rate equipment. The School's policy and procedures do not require retention of asset records for all E-Rate equipment. The School failed to submit a request to USAC for approval of the substituted equipment.

Effect: The monetary effect of this finding is $1,255, the amount of disbursements from the USF for E-Rate equipment that could not be located, and any additional cost for the unapproved substituted equipment.

Recommendations:

(3) We recommend Perry Street PPCS maintain asset and inventory records for E-Rate to account for and safeguard equipment.
(4) We recommend FCC direct USAC to recover $1,255, the USF funded amount for the missing equipment.
(5) We recommend Perry Street PPCS request approval from USAC for all substitutions.
(6) We recommend FCC direct USAC to seek recovery for unapproved substitutions where the original requested equipment's pre-discount price is less than the substituted equipment's pre-discount price. Support should be the lower of either the pre-discount price of the equipment for which support was originally requested or the pre-discount price of the new, substituted equipment.

Beneficiary's Response: The school agrees with our finding. See Appendix III for the School's corrective action plan.

FCC OIG Response to Beneficiary's Response: The School concurs with our findings and its corrective action is adequate to satisfy our recommendations.

USAC Management Response: Perry Street PPCS did not maintain a complete and accurate inventory listing as required by FCC rules. The School's Fixed Asset List ("FAL") did not include a list of E-Rate equipment, but listed only an E-Rate project name. The School's policy did not require that all E-Rate equipment be recorded and documentation be retained for five years after the last day of delivery of services.

Perry Street PPCS substituted two pieces of equipment without seeking USAC's approval to substitute the equipment. IBM UPS equipment was substituted for APS Smart UPS. Since the applicant did not request a service substitution, USAC will review the substituted equipment functionality and determine whether the equipment substituted is permissible and in accordance with program rules. USAC will seek recovery consistent with FCC Rules and Orders if the service substitution is not in accordance with FCC guidelines.

Auditors could not find one of the IBM UPS EBM. The applicant did not invoice USAC for the missing IBM UPS EBM. Since neither the applicant nor the service provider invoiced USAC for these items, USAC will not seek recovery.

The applicant substituted the Holland analog agile demodulator with the iTach Controller. The auditors were unable to locate the iTach Controller. Further, the service provider invoiced USAC for missing unapproved substituted equipment –Holland analog agile demodulator (quantity: 2) and the UPS 750 va rack mountable. USAC paid the invoice for the missing equipment. USAC will conduct outreach to determine which items were substituted and missing. Based on the outcome of USAC's outreach, USAC will determine the recovery amount for the equipment invoiced to USAC consistent with FCC Rules and Orders.

Going forward, the applicant should ensure the FAL is updated to reflect the E-rate funded equipment that was actually delivered and installed. The applicant should also retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported service for at least 5 years after the last day of delivery of service in a

particular Funding Year. USAC management concurs with the finding, effect and recommendation.

FCC OIG Response to USAC Management Response: USAC Management concurs with our findings and recommendations.

Appendix I – OIG Contact and Staff Acknowledgments

Contact	For more information about this report, please contact the OIG at (202) 418-0470.
Contributors	Beth Engelmann, Audit Director, USF Programs Rachel Stein, Auditor Kathleen O'Reilly, Special Counsel USF

Appendix II – Report Distribution

FCC Distribution
Office of Managing Director
Wireline Competition Bureau

Non-FCC Distribution
Universal Service Administrative Company

Appendix III – Perry Street PPCS's Comments

PERRY STREET PREP

RESPECT • RESPONSIBILITY • PERSEVERANCE

April 17, 2013

Dear Mr. Grahe,

We received and accept the comments and stipulations of your draft report No. 12-INSP-09-04 regarding our school's compliance with E-rate rules.

Please let us know to whom and how we can repay the $1,255.00. We are compiling an *E-rate Policies and Procedures Manual* with the help of our E-rate consultant and will implement it starting for the 2013 E-rate year. We will also create a file cabinet for E-rate documentation going back as far as we can.

I hope this satisfies FCC. We appreciate your help and understanding and look forward to continuing to participate in the E-rate program.

Sincerely,

Garrett Mushaw