Performance Audit

Orange County Library System

Funding Years 2010 and 2011

OIG Report No. 15-AUD-07-07

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

TABLE OF CONTENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

WWW .MOSSADAMS.COM

EXECUTIVE SUMMARY

Performance audit of Orange County Library System, Orlando, Florida.

A. WHY WE DID THIS AUDIT

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

B. WHAT WE FOUND

Our audit disclosed that Orange County Library System (Library or Beneficiary) generally complied with the applicable FCC rules related to disbursements made from the Program during funding years (FY) 2010 and 2011.We found the Beneficiary did not retain certain documentation related to the USF program, as required by 47 C.F.R. Section 54.516(a)(1), and the Beneficiary's Internet Safety Policy addressed only two out of the five required elements as specified by 47 C.F.R. Section 54.520 (c)(2)(ii).

C. WHAT WE RECOMMENDED

We have recommended the Beneficiary maintain all pertinent documentation related to its involvement in the E-Rate program for ten years after latter of the last day of the applicable funding year or the service delivery deadline related to the funding request. We recommend recovery of FY 2011 disbursements in the amount of $62,304 due to the missing documentation. We also recommend the Beneficiary revise its Internet Safety Policy to include all five required components as dictated by 47 C.F.R. Section 54.520 (c) (2) (ii).

D. BENEFICIARY COMMENTS AND OUR RESPONSE

The Library provided written responses to our findings in which they agreed with the audit findings, however they disagreed with our recommendation to recover $62,304.

Moss Adams LLP

Spokane, Washington
April 27, 2016

I. OBJECTIVES, SCOPE, AND METHODOLOGY

A. BACKGROUND

The USF Schools and Libraries Program, often called "E-Rate," is a Universal Service Fund program that, during the relevant time period, provided discounts to eligible schools and libraries in every U.S. state and territory for certain eligible communications services, including telecommunications services, Internet access, basic maintenance, and internal connections.

Orange County Library System (Beneficiary Number 127680) is an urban public library system located in Orlando, Florida. The Beneficiary had 15 locations during the 2010 and 2011 funding years. The performance audit encompassed funding years 2010 and 2011 USF disbursements of $418,994 that were used to provide telecommunication and Internet services through six Funding Request Numbers (FRNs).

B. PERFORMANCE AUDIT OBJECTIVES AND SCOPE

The FCC OIG contracted with Moss Adams LLP to conduct a performance audit of Orange County Library System's expenditures related to FYs 2010 and 2011USF disbursements of $418,994 and were related to FRNs 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 for 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 FRNs noted in Appendix I based upon our firm's attribute sampling methodology. We tested compliance with the applicable rules codified in 47 C.F.R. Sections 54.500 to 54.523, which pertain to the E-Rate program. 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 FCC Forms 471 and 486, 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 versions that were applicable during funding years 2010 and 2011.

Finding #1

Condition

The Library did not retain all documents related to the application for, receipt, and delivery of discounted telecommunications and other supported services for FY 2010 and 2011. The Library did not retain documentation to support the selection of the service providers for four of the six FRNs reviewed, the technology plan, and the E-Rate discount calculation.

While the Library received more than one bid for their FCC Form 470s, documentation supporting the selection decisions of each service provider was not maintained. The Library's procedure was to retain the bids received within the archived email of the prior information technology (IT) manager; however, the bid evaluation documentation was not located in the archived email. Library officials stated the service provider selection documentation was maintained by the prior IT manager; however, the current IT manager was unable to locate the analysis of the related bids for the FRN's listed below:

Funding Year	Form 470 Number	FRN	Service	Amount	Lowest cost bidder selected?
2010	322400000642472	1992756	Phone Service	$ 10,226.40	Yes
2010	322400000642472	1992784	Wide Area Network	$ 118,272.00	Yes
2010	322400000642472	1992771	Internet Access	$ 80,448.00	Yes
2011	339350000888421	2194298	Internet Access	$ 62,304.00	No

For the three 2010 FRN's (noted above), we reviewed the bids and found that the lowest cost bidder meeting the service requirements outlined in the request was selected. However, we were unable to determine if the lowest cost bidder was selected for the 2011 FRN 2194298. Also, Library officials stated that the lowest cost bid was not selected for FRN 2194298. Because the Library did not retain bids received or bid evaluation documentation for FRN 2194298, we are unable to determine if price was a primary factor in this selection.

In addition, the Library did not retain documentation supporting its determination of the applicable discount rate for the 2010 and 2011funding years. While the Library obtained the discount percentage calculation for Orange County from the State Library's Division of Library and Information Services and we were able to verify the discount rate was accurate, documentation supporting the discount rate submitted on the Form 471 was not retained by the Library for the periods under audit.

Lastly, the Library did not retain the approved technology plan for the years under audit. While the Library was able to obtain a copy from the applicable state department and the plan was in compliance with FCC requirements, documentation related to the application for these funds was required to be retained for five years following completion of the plan.

Criteria
Under 47 C.F.R. Section 54.516(a) (1), the Beneficiary must 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, In addition, 47 C.F.R. Section 54.511(a) requires the Beneficiary to consider all bids submitted and to select the most cost-effective service offering, with price being the primary factor considered.

Although the Beneficiary has a policy in place to meet the FCC rules related to record retention, during the audit period under question a different information technology director was in charge of directing the application for, and delivery of, discounted telecommunications and other supported services, and proper documentation was not maintained.

Effect
The Beneficiary was not in compliance with all rules and regulations related to the USF program. Documentation was not retained for the service provider selection process, so we are u nable to determine if the Library complied with the rules applicable to service provider selection. However, as the Beneficiary was able to obtain copies for the discount percentage and the technology plan from alternative sources, there is no monetary effect related to these.

Recommendation
We recommend the Library maintain all pertinent documentation related to the USF program for at least ten years after the latter of the last day of the applicable funding year or the service delivery deadline for the funding request to ensure compliance under the program. Although the rule in effect for the funding year under audit was five years, the FCC extended the rule in 2014 to ten years in the *E-Rate Modernization Order.*[1]

---

[1] Based on USAC management comments, the original recommendation for record retention was revised from five years to ten years. The change was discussed with the Library management and management agreed with the revised recommendation.

We also recommend, consistent with the FCC's Fifth Report and Order, FCC 04-190, paragraph 21, the Universal Service Administrative Company seek recovery of FY 2011USF disbursements in the amount of $62,304, related to FRN 2194298 because there was insufficient documentation retained to show that the Library selected the most cost effective service offering for the service provider.

Beneficiary Response

The Orange County Library System (Library) concurs with Finding # 1regarding maintenance of pertinent documentation. As stated above, we did not have the information supporting the applicable discount rate and the approved technology plan in our files for the years audited, but we were able to obtain copies of both documents from the State of Florida.

At the time of the audit we were not able to provide documentation regarding the bid scoring for the three services we had during funding year (FY) 2010 and one out of the three services we had during FY 2011. Unfortunately, the person that was in charge of directing the application for E-Rate during that period is no longer with the Library. The Library does recognize that this information was required to be kept as part of the retention policy, and has already implemented corrective measures.

We selected the lowest cost bidder for the three services during FY 2010. For the services during FY 2011, we were not able to provide documentation of bid scoring for the Internet access service but were able to provide bid scoring for the other two services: phone and wide area network. At the time we decided to continue our Internet access service with the same service provider that we chose during FY 2010. This company was no longer the lowest bid for FY 2011 but their bid was lower than what we were paying during FY 2010. Additionally, costs associated with switching providers including labor, reconfiguration of infrastructure, reassigning IP addresses for outward facing server, etc. led the Library to choose the existing provider, over the other provider which provided an initially lower bid. For these reasons, we believe the Library chose the service provider that was in the best interest of both the Library and Universal Service Administrative Company. Accordingly, we request that Universal Service Administrative Company not seek recovery in the amount of $62,304.

USAC Management Response

Section 54.511(a) requires the Beneficiary to carefully consider all bids submitted and to select the most cost effective service offering using price of the eligible goods and services with price being the primary factor considered.[2] Further, pursuant to Section 54.5163(a)(1), the Beneficiary must 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.[3]

[2] 47 C.F.R. § 54.11(a) (2010).
[3] Id. at § 54.516 (a) (1) (2010)

The FCC extended its document retention requirements for the E-Rate program to ten years in the *E-Rate Modernization Order.*[4] The new document rule became effective on November 20, 2014. Under the new rule, applicants are required to "retain all documents related to the application for, receipt, and delivery of 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."[5] Applicants are also required to retain "[a]ny other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism."[6]

The Beneficiary states in its response that it concurs with the finding; however, disagrees that recovery should be sought. The Beneficiary asserts that it chose the service provider that was in the best interest of both the Library and USAC. Additionally, the Beneficiary states that although it was unable to provide documentation of bid scoring for the Internet access service for FY 2011, it was able to provide bid scoring for the phone and wide area network services. However, the auditors were unable to determine whether the Beneficiary selected the most cost effective service offering using price of the eligible goods and services as the primary factor for the FY 2011 Internet access service without having documentation of the Beneficiary's vendor selection process, as the Beneficiary did not select the lowest bid that was received for this service.

Going forward, the Beneficiary should implement controls and procedures to ensure it carefully considers all bids submitted and selects the most cost effective service offering, using price of the eligible goods and services as the primary factor considered, as required by the Rules. Although the auditors recommend a five-year period, the modernization order establishes a ten-year period, therefore USAC further recommends the Beneficiary implement controls and procedures to ensure that it retains adequate records related to the application for, receipt, and delivery of discounted internet access, telecommunications and other supported services for at least ten years after the last day of service delivered as required by FCC rules. USAC management concurs with the finding, effect, and recommendation and will seek recovery of $62,304.

---

[4] *Modernizing the E-Rate Program for School and Libraries,* WC Docket No. 13-184, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Red 8870, 8974, para 262 (2014)
[5] 47 C.F.R § 54.516 9a) (10) (2014)
[6] *Id.*

Finding #2

Condition

The Beneficiary's Internet Safety Policy addressed only two of the five required criteria as specified by 47 C.F.R. Section 54.520 (c)(2)(ii)(A)-(E). The policy was missing elements B, C, and D:

B) the safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications;

C) unauthorized access, including so-called 'hacking', and other unlawful activities by minors online;

D) unauthorized disclosure, use, and dissemination of personal identification information regarding minors.

Criteria

Pursuant to 47 C.F.R. Section 54.520 (c)(2)(ii), if a beneficiary receives USF disbursements for Internet access and internal connections services, the Beneficiary must maintain an Internet Safety Policy that addresses: A) access by minors to inappropriate matter on the Internet and World Wide Web; B) the safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications; C) unauthorized access, including so-called 'hacking', and other unlawful activities by minors online; D) unauthorized disclosure, use, and dissemination of personal identification information regarding minors; and E) measures designed to restrict minor's access to materials harmful to minors.

Cause

The Library was unaware that all specific elements were to be included in the policy. The Library did have two of the five elements in their policy.

Effect

The policy did not include all elements and; therefore, when the Library implemented their policy it is possible they may not have provided the full protections as required by the FCC rules. However, the Library did have a web based filter in effect during the periods under audit that appeared to be functioning properly.

Recommendation

Moss Adams recommends the Library revise its Internet Safety Policy to include all five required components as dictated by 47 C.F.R. Section 54.520 (c)(2)(ii). Additionally, the Library should ensure that all protections required by the FCC Rules are implemented.

Beneficiary Response

The Library concurs with Finding # 2 regarding our Internet Access Policy. Immediately after receiving the auditor's finding and recommendation, the Library revised its Policy to include all five required components and the new Internet Access Policy was approved by the Library Board of Trustees on September 9, 2015. The new policy can be found at: http://www.ocls.info/About/BOT/PDFs/Policies/InternetAccessPolicyRevisedSept2015.pdf

USAC Management Response

Section 54.520 (c)(2)(ii) states if a Beneficiary received E-Rate funding for Internet access and internal connections services, the Beneficiary must implement an Internet Safety Policy that addresses the following five elements: (1) access by minors to inappropriate matter on Internet and World Wide Web; (2) the safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications; (3) unauthorized access, including so-called 'hacking', and other unlawful activities by minors online; (4) unauthorized disclosure, use, and dissemination of personal identification information regarding minors; and (5) measures designed to strict minors' access to materials harmful to minors.

The auditors determined that the Beneficiary's Internet Safety Policy did not include all five required elements and was missing three elements. However, the auditors also determined that the Beneficiary was using a web-based filter on its Internet access service. The Beneficiary concurs with the finding and on September 9, 2015, implemented a revised Internet Safety Policy that addresses all five required components.

Going forward, the Beneficiary should review the CIPA requirements, as well as, the CIPA guidance on USAC website under, Schools and Libraries, Reference Area, "Children's Internet Protection Act (CIPA)" to remain compliant with the requirements. USAC notes that although the Beneficiary was not technically compliant with the CIPA requirements, it was in substantial compliance and recovery is not warranted.[7] USAC management concurs with the finding, effect, and recommendation.

---

[7] See Letter from Dana R. Shaffer, Chief, Wireline Competition Bureau to Scott Barash, Acting Chief Executive Officer, USAC, WC Docket No. 02-6, 24 FCC Red 417, 417-418 (2009).

III. ADEQUATE AND EFFECTIVE CONTROL RECOMMENDATIONS

See internal control recommendations related to compliance findings above.

APPENDIX I – TOTAL DISBURSEMENTS UNDER AUDIT

FUNDING YEAR(s)	FRN(s)	AMOUNT DISBURSED
2010	1992756	$10,226
	1992784	118,272
	1992771	80,448
2011	2194298	62,304
	2194424	140,448
	2194351	7,296