

Performance Audit Conducted on Behalf of the

Federal Communications Commission

Office of the Inspector General



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

Colbert County School District

Beneficiary ID: 128029

Prepared for: **Federal Communications Commission**
Office of the Inspector General
OIG Report No. 19-AUD-10-07

As of Date: April 21, 2021

8350 Broad Street #900
McLean, VA 22102



TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
PERFORMANCE AUDIT HIGHLIGHTS.....	5
BACKGROUND, OBJECTIVES, SCOPE AND PROCEDURES.....	6
Background	6
<i>Program Overview.....</i>	<i>6</i>
<i>Beneficiary Overview.....</i>	<i>7</i>
Objectives	8
Scope	8
Procedures	8
AUDIT RESULTS	10
Findings and Recommendations.....	10
Conclusion	16
APPENDICES.....	18
Appendix A: Beneficiary Response.....	18
Appendix B: Management’s Response.....	22
Appendix C: Glossary of Terms	24
Appendix D: Performance Audit Procedures	27
Appendix E: Finding No. 2 Asset Detail	29

EXECUTIVE SUMMARY

April 21, 2021

Mr. David Hunt
Inspector General
Federal Communications Commission
Office of Inspector General
445 12th 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 Colbert County School District, Billed Entity Number (“BEN”) 128029, (“Colbert” or “Beneficiary”) for disbursements of \$300,631, 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 July 30, 2019 to April 21, 2021, and our results are as of April 21, 2021.

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 orders¹ 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 Rules² that resulted in disbursements of \$300,631 from the E-rate

¹ 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).

² 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”).

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.

As a result of the procedures performed, KPMG identified two findings, 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 \$39,985 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

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 Colbert County School District (“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.

1. The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations.
2. The Beneficiary had no established process or related controls to ensure that a complete and accurate fixed asset listing was maintained in accordance with school district policy and E-rate Program rules and regulations. Due to the lack of complete and accurate fixed asset documentation, we were unable to verify the Beneficiary met the requirement to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time.

Overall, we determined that disbursements in the amount of \$39,985 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures. Detailed audit results are described in the Findings and Recommendations section below.

What Is Recommended?

KPMG recommends that:

1. The Beneficiary establish written bidding and procurement policies and procedures, as well as related internal controls, to ensure compliance with federal program rules and regulations, to include 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 each qualified proposal received.
2. The Beneficiary implement processes and controls to ensure it maintains documentation to uniquely track and identify E-rate funded equipment for at least ten years after purchase in order to comply with E-rate record retention requirements and school district policy.
3. The Beneficiary should develop policies, processes, and controls to ensure it maintains evidence that all equipment purchased with universal service discounts are in use at the approved location, for the specified purpose and for a reasonable period of time.
4. USAC seek recovery of E-Rate Program Funds in the amount of \$39,985 from the Beneficiary.

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. During funding year 2015 the FCC established an 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 Colbert County 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

Colbert County School District (“Beneficiary”, BEN# 128029), is a school district located in Colbert County, AL that serves over 2,600 students.

The following table illustrates the amount committed³ 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
Category Two: Internal Connections	\$149,169	\$149,169
Category One: Telecommunications Services	\$122,695	\$122,695
Category One: Voice Services	\$30,298	\$28,767
Total	\$302,162	\$300,631

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 471⁴ applications with seven Funding Request Numbers (“FRN”)⁵. We audited 24 FRNs with commitments totaling \$302,162 and disbursements of \$300,631.

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

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

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

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 \$300,631 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.

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, orders, 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")⁶ requirements in accordance with 47 CFR §54.520.

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 470⁷ 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 47 CFR §54.516(d).
- 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 List⁸.

7. Record Keeping:

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

⁶ Children's Internet Protection Act (CIPA): A law that mandates certain internet safety policy and filtering requirements for recipients of E-rate program discounts.

⁷ 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.

⁸ 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

AUDIT RESULTS

KPMG’s performance audit results include findings and recommendations, with respect to the Beneficiary’s compliance with FCC requirements. The audit results also include 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 and Recommendations

KPMG’s performance audit procedures identified two findings.

Finding No. 1	<u>Beneficiary Did Not Maintain Documentation of its Competitive Bidding Process</u>
Condition	<p>The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations. The Beneficiary did not document the evaluation of service provider proposals received for the 14 telecommunications and voice service FRNs.</p> <p>As a result of this review, auditors noted the following:</p> <ul style="list-style-type: none">▪ The Beneficiary selected the service provider with the highest cost for eight FRNs for local and long-distance voice services. A total of two bids were received for the impacted FRNs. The auditors determined that for these eight FRNs, a lower cost option for the services requested was available. Instead of selecting the lower cost option utilizing VoIP technology, the Beneficiary selected traditional POTS lines that were higher in costs for similar services. No documentation was retained to demonstrate what relevant factors, with cost as the primary factor, were considered to select the service provider.▪ For cellular services received under FRN 2794460, the Beneficiary received four proposals. The auditors determined the Beneficiary did not select the most cost-effective service provider for similar services. There were two other service providers’ proposals which were at a lower cost than the selected provider. No documentation was retained to demonstrate what relevant factors, with cost as the primary factor, were considered to select the service provider.▪ For the remaining five FRNs, although the Beneficiary did not retain all the relevant competitive bidding documentation, the

	<p>auditors noted multiple proposals were received and were able to ascertain that services with the lowest costs were selected.</p>
<p>Criteria</p>	<p>Per 47 C.F.R. Section 54.503(a) (2014), “[a]ll 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 54.511(a) (2014), “[i]n selecting a provider of eligible services, schools, libraries, library consortia, and consortia including any of those entities shall carefully consider all bids submitted and must select the most cost-effective service offering. In determining which service offering is the most cost-effective, entities may consider relevant factors other than the pre-discount prices submitted by providers, but price should be the primary factor considered.”</p> <p>Under 47 C.F.R. Section 54.504(a)(1)(ix) (2014) applicants are required to certify “[a]ll bids submitted to a school, library, or consortium seeking eligible services were carefully considered and the most cost-effective bid was selected in accordance with §54.503 of this subpart, with price being the primary factor considered, and it is the most cost-effective means of meeting educational needs and technology goals.”</p> <p>Per 47 C.F.R. Section 54.516(a)(1) (2014), “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>Cause</p>	<p>The Beneficiary stated that noncompliance occurred due to a lack of knowledge of specific internal controls related to E-rate program rules and regulations. Per the Beneficiary, the School Board was aware of the E-rate expenditures through the annual budget approval process. However, since only the Director of Technology and Chief School Financial Officer evaluated service provider proposals, the Beneficiary indicated it did not consider it necessary to document the results of their evaluations to demonstrate cost was the primary factor considered when selecting service providers.</p>

<p>Effect</p>	<p>The monetary effect for this finding is \$26,643, calculated as the undiscounted (i.e., pre-discount/full price) cost of \$44,408 multiplied by the discount rate of 60 percent. This amount includes all disbursements made for the below FRNs where auditors determined the Beneficiary did not select the most cost-effective service provider for similar services. Details regarding the impacted FRN's are included in the table below.</p> <table border="1" data-bbox="490 466 1421 1077"> <thead> <tr> <th></th> <th>(A)</th> <th>(B)</th> <th></th> </tr> <tr> <th>FRN</th> <th>Undiscounted Cost</th> <th>Discount Rate</th> <th>Monetary Effect of Audit Results (Column A * B)</th> </tr> </thead> <tbody> <tr> <td>2794366</td> <td>\$ 3,636</td> <td>60%</td> <td>\$ 2,181</td> </tr> <tr> <td>2794377</td> <td>\$ 3,822</td> <td>60%</td> <td>\$ 2,293</td> </tr> <tr> <td>2794389</td> <td>\$ 2,231</td> <td>60%</td> <td>\$ 1,338</td> </tr> <tr> <td>2794398</td> <td>\$ 2,402</td> <td>60%</td> <td>\$ 1,441</td> </tr> <tr> <td>2794412</td> <td>\$ 1,023</td> <td>60%</td> <td>\$ 614</td> </tr> <tr> <td>2794316</td> <td>\$ 1,932</td> <td>60%</td> <td>\$ 1,159</td> </tr> <tr> <td>2794277</td> <td>\$ 5,910</td> <td>60%</td> <td>\$ 3,546</td> </tr> <tr> <td>2794303</td> <td>\$ 8,283</td> <td>60%</td> <td>\$ 4,970</td> </tr> <tr> <td>2794460</td> <td>\$ 15,169</td> <td>60%</td> <td>\$ 9,101</td> </tr> <tr> <td>Total Impact</td> <td>\$ 44,408</td> <td></td> <td>\$ 26,643</td> </tr> </tbody> </table>		(A)	(B)		FRN	Undiscounted Cost	Discount Rate	Monetary Effect of Audit Results (Column A * B)	2794366	\$ 3,636	60%	\$ 2,181	2794377	\$ 3,822	60%	\$ 2,293	2794389	\$ 2,231	60%	\$ 1,338	2794398	\$ 2,402	60%	\$ 1,441	2794412	\$ 1,023	60%	\$ 614	2794316	\$ 1,932	60%	\$ 1,159	2794277	\$ 5,910	60%	\$ 3,546	2794303	\$ 8,283	60%	\$ 4,970	2794460	\$ 15,169	60%	\$ 9,101	Total Impact	\$ 44,408		\$ 26,643
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<p>Recommendation</p>	<ol style="list-style-type: none"> 1. The Beneficiary should establish written bidding and procurement policies and procedures as well as related internal controls to ensure compliance with federal program rules and regulations to include 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 each qualified proposal received. 2. KPMG recommends that USAC seek recovery of E-Rate Program Funds in the amount of \$26,643. 																																																
<p>Beneficiary Response</p>	<p>Colbert County School District agreed with the finding and recommendations. The Beneficiary's full response is included in Appendix A of the report.</p>																																																
<p>USAC's Management Response</p>	<p>USAC management concurs with the finding and recommendations. USAC will seek recovery in the amount of \$26,643. The full response is included in Appendix B of the report.</p>																																																

Finding No. 2	<u>Complete & Accurate Asset Records Were Not Maintained</u>
Condition	<p>The Beneficiary had no established process or related internal controls to ensure that a complete and accurate fixed asset listing was maintained in accordance with school district policy and E-rate Program rules and regulations.</p> <p>As a result of this review, auditors noted the following:</p> <ul style="list-style-type: none"> ▪ The Beneficiary had standardized policies and procedures associated with the fixed asset listing to include the tracking of asset model, serial number and location. Under FRNs 2848358, 2848730, and 2848976, the Beneficiary purchased category two equipment and, at the time of the audit, provided documentation of multiple fixed asset listings. A complete fixed asset listing was compiled by the auditor through review of FCC Form 471 No. 10143967 and the corresponding Service Provider bills. Based on the review, the fixed asset listings maintained by the beneficiary were incomplete and did not accurately capture pertinent information such as serial numbers and location. ▪ Also, our audit identified 19 wireless access points, procured under FRNs 2848730 and 2848358, which were not in operation at the time of the on-site equipment verification performed on October 29, 2019. Additionally, we identified two switches, procured under FRN 2848976, that were not in operation at the time of the October 29, 2019 on-site equipment verification. Per the Beneficiary, the E-rate funded equipment was placed into service at the time of purchase; however, when equipment failed, the Beneficiary would remove the non-functioning access point or switch to troubleshoot. The Beneficiary replaced the access points and switches with functional equipment previously purchased with district funds. Most of the access points and switches procured with Funding Year 2015 funds were eventually repaired, however, they were not placed back into service, and served as back-ups. <p>Due to the lack of complete and accurate fixed asset documentation, we were unable to verify the Beneficiary met the requirement to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time.</p>
Criteria	Per 47 C.F.R. Section 54.516(a)(1) (2014), “Recordkeeping requirements: (1) Schools, libraries, and consortia. Schools, libraries, and any consortium that includes schools or libraries shall retain all documents related to the

	<p>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. Any other document that demonstrates compliance with the statutory or regulatory requirements for the schools and libraries mechanism shall be retained as well. Schools, libraries, and consortia shall maintain asset and inventory records of equipment purchased as components of supported category two services sufficient to verify the actual location of such equipment for a period of 10 years after purchase.”</p> <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> <p>Per the FCC's 2003 Third Report and Order & Second Notice of Proposed Rulemaking, Section III(A)(2), “Recipients of support are expected to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time. Purchasing equipment with universal service discounts and then replacing or upgrading that equipment annually or almost annually is unnecessary and not economically rational” (paragraph 26). The FCC "decline[d] to institute useful life criteria for equipment purchased with universal service funds"(paragraph 30) and "address[ed] this issue by adopting a general prohibition on the transfer of equipment for a period of three years after purchase” (paragraph 17 footnote 29).</p> <p>Per Colbert County School District fiscal management policy, the “Board of Education directs that all fixed or capital assets shall be inventoried annually. Inventory records of fixed or capital assets shall be maintained in the school board’s central office. A supplemental inventory of equipment items not classified as fixed or capital assets shall be maintained.”</p>
<p>Cause</p>	<p>The Beneficiary maintained separate, incomplete listings in an attempt to track equipment procured with E-rate funds. The Beneficiary lacked a formalized process and related controls to ensure all pertinent E-rate funded equipment information was tracked within a consolidated fixed asset listing. The Beneficiary stated that they were not aware of the requirement to maintain documentation to demonstrate all equipment purchased with universal service discounts were utilized at the particular location, for the specified purpose for a reasonable period of time.</p>

<p>Effect</p>	<p>Failure to maintain complete and accurate equipment records increases the risk of equipment being lost or stolen. Additionally, the lack of a process and related controls to verify complete and accurate equipment records are maintained may prevent the school district from complying with E-rate program rules and regulations pertaining to the effective use, eligible purpose, and retention of category two equipment.</p> <p>The monetary effect for this finding is \$13,342 under FRNs 2848730, 2848358, and 2848976, calculated as the undiscounted (i.e., pre-discount/full price) cost of the equipment, \$16,676, multiplied by the Beneficiary’s calculated discount rate of 80 percent. See additional details in the table below.</p> <table border="1" data-bbox="516 667 1435 926"> <thead> <tr> <th>FRN</th> <th>Discount Rate</th> <th>Undiscounted Cost</th> <th>Monetary Effect of Audit Results</th> </tr> </thead> <tbody> <tr> <td>2848730</td> <td>80%</td> <td>\$ 15,136</td> <td>\$ 12,112</td> </tr> <tr> <td>2848358</td> <td>80%</td> <td>\$ 774</td> <td>\$ 618</td> </tr> <tr> <td>2848976</td> <td>80%</td> <td>\$ 766</td> <td>\$ 612</td> </tr> <tr> <td>Total Impact</td> <td></td> <td>\$ 16,676</td> <td>\$ 13,342</td> </tr> </tbody> </table> <p><i>Note: Rounding differences may exist. See Appendix E for the full asset detail related to the amounts noted above.</i></p>	FRN	Discount Rate	Undiscounted Cost	Monetary Effect of Audit Results	2848730	80%	\$ 15,136	\$ 12,112	2848358	80%	\$ 774	\$ 618	2848976	80%	\$ 766	\$ 612	Total Impact		\$ 16,676	\$ 13,342
FRN	Discount Rate	Undiscounted Cost	Monetary Effect of Audit Results																		
2848730	80%	\$ 15,136	\$ 12,112																		
2848358	80%	\$ 774	\$ 618																		
2848976	80%	\$ 766	\$ 612																		
Total Impact		\$ 16,676	\$ 13,342																		
<p>Recommendation</p>	<p>The Beneficiary should implement processes and controls to ensure it maintains documentation to uniquely track and identify E-rate funded equipment for at least ten years after purchase in order to be in compliance with E-rate record retention requirements and school district policy. The Beneficiary should develop policies, processes, and controls to ensure it maintains evidence that all equipment purchased with universal service discounts are in use at the approved location, for the specified purpose and for a reasonable period of time.</p> <p>Additionally, KPMG recommends that USAC seek recovery of E-Rate program Funds in the amount of \$13,342.</p>																				
<p>Beneficiary Response</p>	<p>Colbert County School District agreed with the finding and recommendations. The Beneficiary’s full response is included in Appendix A of the report.</p>																				
<p>USAC’s Management Response</p>	<p>USAC management concurs with the finding and recommendations. USAC will seek recovery in the amount of \$13,342. The full response is included in Appendix B of the report.</p>																				

Conclusion

KPMG’s evaluation of the Beneficiary’s compliance with the applicable requirements of 47 C.F.R. Part 54 identified two findings.

1. The Beneficiary did not maintain documentation to demonstrate category one service providers were selected in compliance with E-rate program competitive bidding regulations.
2. The Beneficiary had no established process or related controls to ensure that a complete and accurate fixed asset listing was maintained in accordance with school district policy and E-rate Program rules and regulations. Due to the lack of complete and accurate fixed asset documentation, we were unable to verify the Beneficiary met the requirement to use all equipment purchased with universal service discounts at the particular location, for the specified purpose for a reasonable period of time.

Overall, we determined that disbursements in the amount of \$39,985 made to the Beneficiary, related to Funding Year 2015, were non-compliant with the E-rate rules, regulations, and procedures.

Detailed audit results are described in the Findings and Recommendations section above. The combined estimated monetary effect of these findings is as follows:

Service Type	Monetary Effect of Audit Results	Recommended Recovery
Category One: Voice Services	\$ 26,643	\$ 26,643
Category Two: Internal Connections	\$ 13,342	\$ 13,342
Total Impact	\$ 39,985	\$ 39,985

KPMG recommends that:

1. The Beneficiary establish written bidding and procurement policies and procedures as well as related internal controls to ensure compliance with federal program rules and regulations, to include 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 each qualified proposal received.
2. The Beneficiary implement processes and controls to ensure it maintains documentation to uniquely track and identify E-rate funded equipment for at least ten years after purchase in order to be in compliance with E-rate record retention requirements and school district policy.
3. The Beneficiary should develop policies, processes, and controls to ensure it maintains evidence that all equipment purchased with universal service discounts are in use at the approved location, for the specified purpose and for a reasonable period of time.

4. USAC seek recovery of Universal Service Funds in the amount of \$39,985 from the Beneficiary.

APPENDICES

Appendix A: Beneficiary Response



COLBERT COUNTY SCHOOLS

Post Office Box 538
425 Highway 72 West
Tuscumbia, Alabama 35674
Phone 256-386-8565 • Fax 256-381-9375
www.colbert.k12.al.us

SUPERINTENDENT
Dr. Gale D. Satchel



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**DEPUTY SUPERINTENDENT
OF TEACHING AND LEARNING**
SPECIAL EDUCATION DIRECTOR
504 COORDINATOR
Wade Turberville



Response to:

Finding No. 1 – Beneficiary Did Not Maintain Documentation of its Competitive Bidding Process

Local and Long Distance Voice Services.

This finding is correct. We do not have the relevant documentation supporting our decision and measures have been put into place to insure that documentation regarding meetings and decisions at bid openings will be put down in writing or electronic format and kept for 10 years. All bids were carefully considered for the local and long distance services. The decision we made for the FRNs listed in this finding is there would have been more unknown costs involved with the implementation of a VOIP solution which our school system was not ready for at that time. Some costs would have included, upgrade of our Wide Area Network and network hardware to handle the Voice traffic.

Cellular Services.

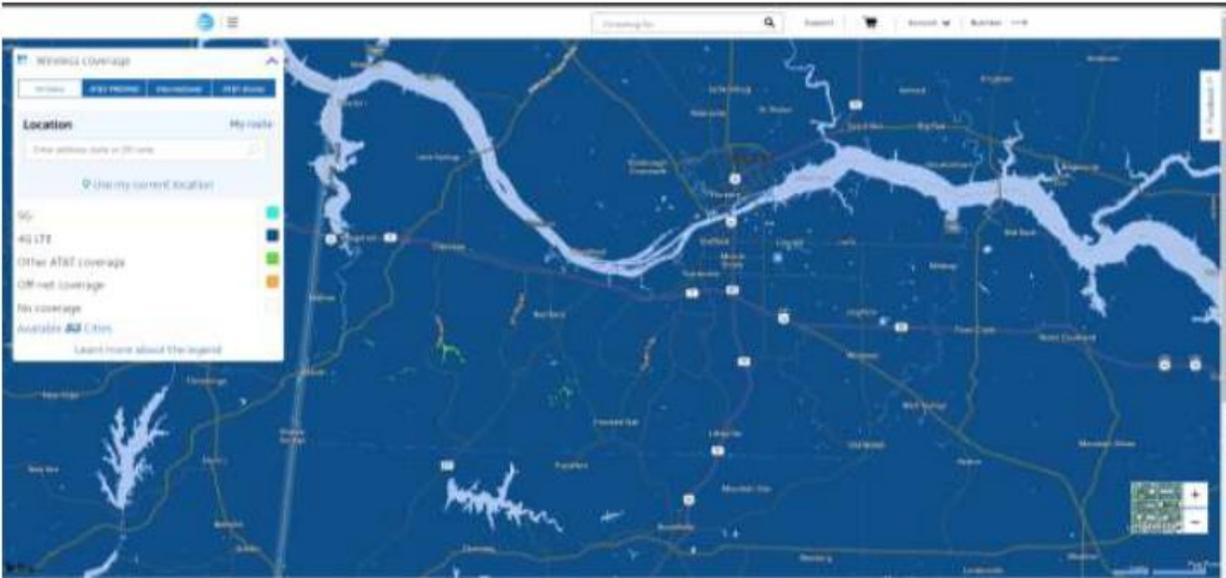
Our buses need reliable communication and due to the geography of Colbert County, which is mountainous on the west end, we have limited choices. All bids received were carefully considered. However, there is not any documentation for the decision at the time, AT&T has the best coverage in our area which is why we still use their services today. Our policy does state that cost is a primary factor, however there is a safety aspect to this decision as well. We used to rely on Citizens Band Radio (CB) in our buses until cell phones became readily available because it was the only means of reliable communication for our bus drivers. The two companies that were the lowest bidder have the worst coverage in our area. For example, we have partnered with T-mobile through a company called Lean Stream. Parents can purchase a Hotspot through Lean Stream using T-mobile's wireless communication network. A lot of parents cannot get a signal in the western part of the county still today. I have attached current coverage maps for each cellular provider for Colbert County labeled Attachment #1.

Attachment #1

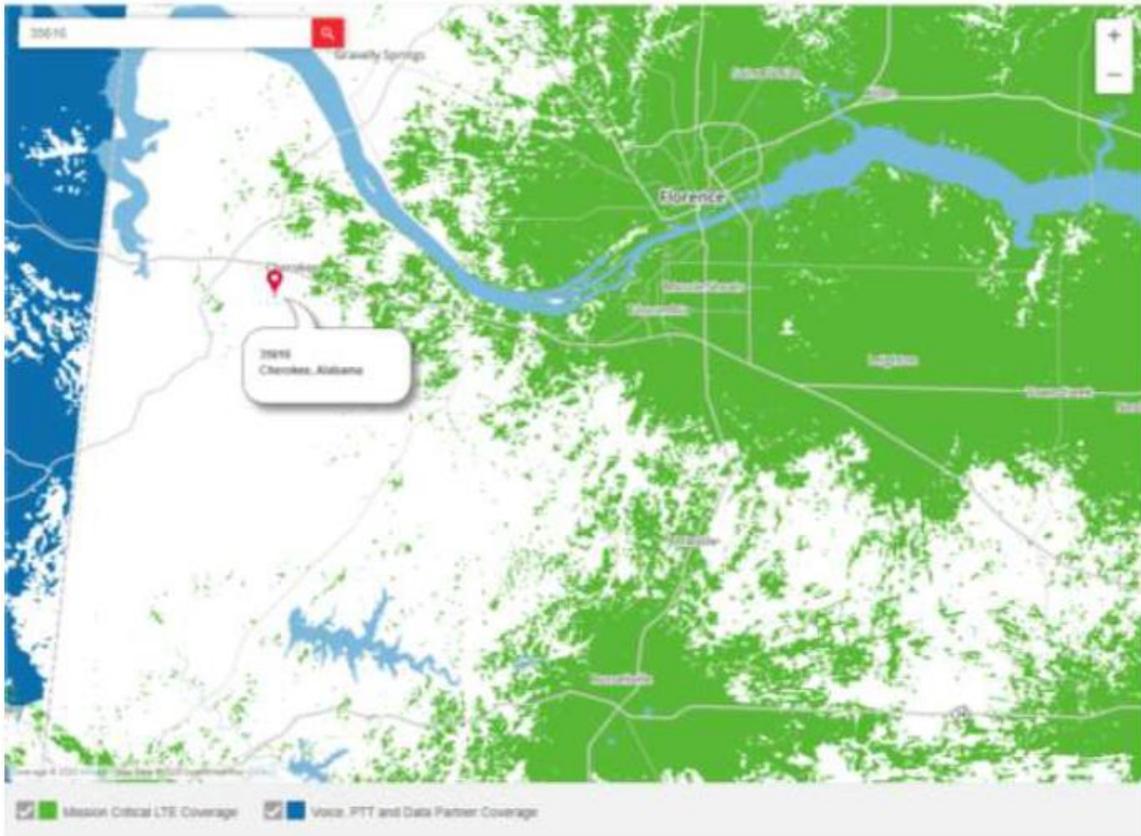
T-Mobile Coverage



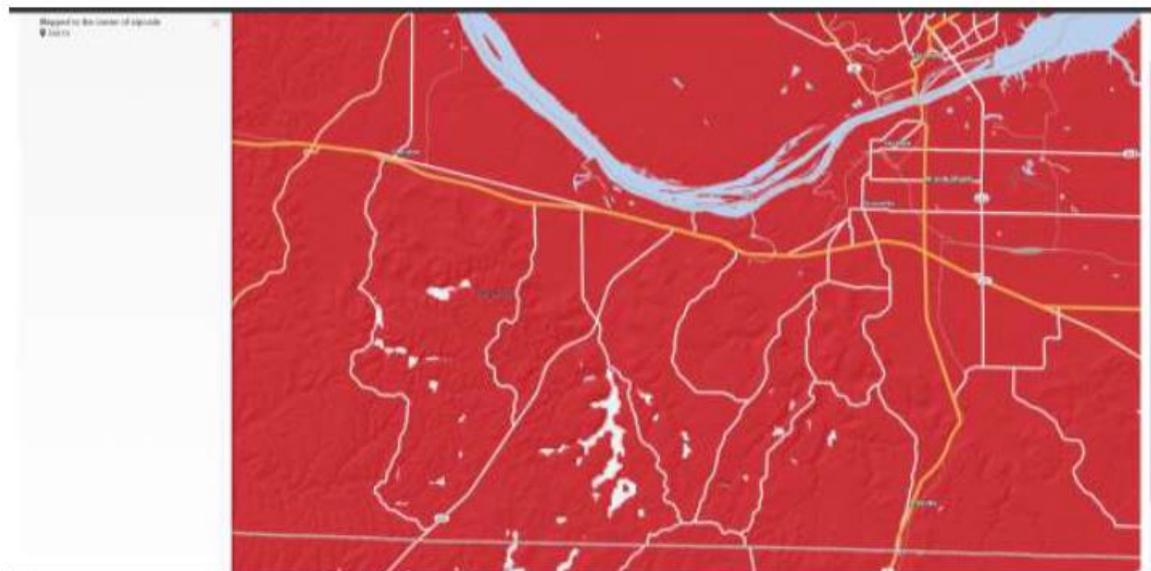
AT&T Coverage



Southernlinc Coverage



Verizon Coverage





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Response to:

Finding No. 2 – Complete & Accurate Records Were Not Maintained

The wireless Access Points referred to in this finding were taken out of service and repaired. Upon removing the defective unit from service to be repaired, we replaced it with an Access Point which was the same brand and model of the defective Access Point that Colbert County Schools purchased with local funds. Since we already had extra wireless Access Points on hand purchased through local funds, we felt there was no need of disrupting service again to replace the repaired device and was unaware that it was required by USAC to have the original device placed back into service even though the devices were exactly the same. The two switches referenced in the Finding No. 2 were defective and were waiting to be repaired or replaced. All devices were kept in a secure location and all were accounted for.

We acknowledge the fact that the devices were not properly inventoried. The equipment is now properly inventoried using a new inventory system we acquired in 2020. The devices were attached to the ceiling or installed in a secure location within the schools thus making it hard to remove from the building which is why no devices were missing according to the numbers counted. Any new devices acquired through E-rate funds will be properly inventoried as they are received. Any changes such as replacement or any other issues each device may go through during its lifespan will be logged into the inventory system.

This has been a learning lesson for all of us. We have already started implementing changes in the way we handle Category 2 Equipment such as acquiring an inventory system. With the new changes E-rate is implementing for Cat2 funding, it will make our job much easier keeping track of Cat2 inventory especially since we are a small school district with limited IT staff. We have always abided by bid laws and will continue to do so which was made apparent by our other FRNs that we applied for. I sincerely hope you look through our statements and put into consideration what we have stated.

"One Team...One Goal...Our Legacy"
#teamcolbertcounty

Appendix B: Management's Response



Via Electronic Mail

March 12, 2021

Mr. Robert McGriff
Assistant Inspector General – Audits
Office of Inspector General
Federal Communications Commission
45 L Street, NE
Washington, D.C. 20554

Re: Comments of the Universal Service Administrative Company to the Final Draft Funding Year 2015 Performance Audit of Colbert County School District (Report No. 19-AUD-10-07)

Dear Mr. McGriff:

The Universal Service Administrative Company (USAC) is providing its response to the above-referenced draft report regarding a performance audit of Colbert County School District (Beneficiary or Colbert), 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 in the draft audit report. Specifically, the auditors determined that the Beneficiary:

- (1) did not maintain documentation to demonstrate that Category One services it received were evaluated in compliance with E-Rate competitive bidding rules; and
- (2) did not maintain complete and accurate physical asset and inventory records and did not effectively use Category Two equipment.

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

Finding One (Colbert Did Not Maintain Documentation of its Competitive Bidding Process)

Finding Details: Colbert did not maintain documentation demonstrating it selected service providers in accordance with E-Rate program competitive bidding regulations. Colbert was unable to provide bid evaluation documents for Category One proposals to demonstrate it chose the most cost-effective proposal using price of the eligible products and services as the most heavily weighted bid evaluation factor.

Response: 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. 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. USAC will seek recovery in the amount of \$26,643.

Finding Two (Colbert Did Not Maintain a Complete and Accurate Fixed Asset List and Category Two Equipment Was Not Effectively Being Used at the Time of the Site Visit)

Finding Details: Colbert maintained multiple incomplete and inaccurate Fixed Asset Lists that were missing equipment serial numbers and equipment locations. Also, 19 wireless access points and two switches were not installed and in use at the time of the on-site visit.

Response: USAC management concurs with the finding and recommendation. Although Colbert did not have a complete and accurate Fixed Asset Listing (FAL) in place at the time of the audit, the auditors were able to verify the existence of the equipment during the on-site visit. However, the lack of a complete and accurate FAL demonstrates Colbert is not in compliance with E-Rate program rules and increases the likelihood that Category Two equipment may be lost or stolen. Also, under the rules of the E-Rate program, applicants must receive and install Category Two equipment between July 1 of the relevant funding year and September 30 following the June 30 close of that funding year, unless they request an extension of the service delivery deadline using the FCC Form 500. USAC will seek recovery in the amount of \$13,342.

In summary, USAC will seek recovery in the amount of \$39,985. USAC will also issue an Audit Compliance Letter requesting Colbert provide policies and procedures it has established to ensure it is compliant with FCC rules regarding competitive bidding and document retention requirements. The Letter will also request policies and procedures Colbert has established to ensure it maintains complete and accurate physical asset records and that equipment it receives is installed and in use by the service delivery deadline for non-recurring services (i.e., September 30 following the close of the funding year).

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

Sincerely,

//s//

Craig Davis
Vice President of E-Rate Program

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.
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.
FEDERAL COMMUNICATIONS COMMISSION (FCC)	U.S. Federal government agency charged with regulating interstate and international communications by radio, television, wire, satellite, and cable.

Term	Definition
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 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.
INTERNAL CONNECTIONS	<p>A Category Two service type on the Eligible Services List. Internal Connections include:</p> <ul style="list-style-type: none"> • Access points used in a local area network (LAN) or wireless local area network (WLAN) environment (such as wireless access points) • Antennas, cabling, connectors, and related components used for internal broadband connections • Caching • Firewall services and components • Switches • Routers • Racks • Uninterruptible Power Supply (UPS)/Battery Backup • Wireless controller systems • Software supporting each of the components on this list used to distribute high-speed internet
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.
TELECOMMUNICATIONS SERVICES	<p>A Category One service type on the Eligible Services List. Telecommunications services include:</p> <ul style="list-style-type: none"> • Asynchronous Transfer Mode (ATM) • Broadband over Power Lines • Cable Modem • Digital Subscriber Line (DSL) • DS-1 (T-1), DS-3 (T-3), and Fractional T-1 or T-3 • Ethernet • Fiber (Lit and Dark) • Frame Relay • Integrated Services Digital Network • Multi-Protocol Label Switching (MPLS) • OC-1, OC-3, OC-12, OC-n • Satellite Service • Switched Multimegabit Data Service • Telephone dial-up • Wireless services (e.g., microwave)
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.
VOICE SERVICES	A Category One service type on the Eligible Services List. Voice services include:

Term	Definition
	<ul style="list-style-type: none"> • Centrex • Interconnected voice over Internet protocol (VoIP) • Local, long distance, and 800 service, e.g., a toll-free telephone number for students to contact school regarding questions about homework • Plain old telephone service (POTS) • Radio loop • Satellite telephone service • Shared telephone service (only the portion of the shared services relating to the eligible use and location may receive discounts) • Wireless telephone service including cellular voice and excluding data and text messaging

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 Colbert County School District (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”)⁹ 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.

⁹ 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.

Appendix E: Finding No. 2 Asset Detail

FRN	Location	Product	Serial Number	(A)	(B)	Monetary Effect of Audit Results (Column A*B)
				Undiscounted Cost	Discount Rate	
2848358	Leighton-Elementary	Access Point	X60653904DBD8	\$ 258	80%	\$ 206
2848358	Leighton-Elementary	Access Point	X60653904DC4C	\$ 258	80%	\$ 206
2848358	Leighton-Elementary	Access Point	X60653904DEEC	\$ 258	80%	\$ 206
2848730	Leighton-Elementary	Access Point	XR214105CA9A	\$ 946	80%	\$ 757
2848730	Colbert County School Bus Garage and Maintenance Shop	Access Point	XR2144105CA6E	\$ 946	80%	\$ 757
2848730	Colbert County School Bus Garage and Maintenance Shop	Access Point	XR2144105CA92	\$ 946	80%	\$ 757
2848730	Cherokee-Elementary	Access Point	XR2144105CAB2	\$ 946	80%	\$ 757
2848730	Colbert-Heights-Elementary	Access Point	XR2144105CAB4	\$ 946	80%	\$ 757
2848730	Colbert-Heights-High	Access Point	XR2144105CAB8	\$ 946	80%	\$ 757
2848730	Colbert-Heights-High	Access Point	XR2144305CA98	\$ 946	80%	\$ 757
2848730	Cherokee-Elementary	Access Point	XR2145205FBDA	\$ 946	80%	\$ 757
2848730	Cherokee-High	Access Point	XR21503060E60	\$ 946	80%	\$ 757
2848730	Colbert-Heights-Elementary	Access Point	XR215030618F8	\$ 946	80%	\$ 757
2848730	Cherokee-High	Access Point	XR21503061DA8	\$ 946	80%	\$ 757
2848730	Leighton-Elementary	Access Point	XR21524064DB2	\$ 946	80%	\$ 757
2848730	Cherokee-Elementary	Access Point	XR21524064DD6	\$ 946	80%	\$ 757
2848730	Hatton-Elementary	Access Point	XR21524064E9A	\$ 946	80%	\$ 757
2848730	Cherokee-Elementary	Access Point	XR21525064E52	\$ 946	80%	\$ 757
2848730	Cherokee-Elementary	Access Point	XR21525064F46	\$ 946	80%	\$ 757
2848976	Colbert County School Bus Garage & Maintenance Shop	Switch	XP8-MSI-70M	\$ 383	80%	\$ 306
2848976	Hatton Elementary School	Switch	XP8-MSI-70M	\$ 383	80%	\$ 306
Total Impact				\$ 16,676		\$ 13,342